

Headquarters U.S. Air Force

Integrity - Service - Excellence

Air Force Working Capital Funds



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Director, Air Force
Working Capital Funds
15 Mar 2004**



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Overview

- **Working Capital Fund Basics**
 - **Important Points**
 - **History, Philosophy and Basics**
 - **A Typical Day**
 - **Summary**
- **Intermission**
- **De-capitalization**
- **Frequently Asked Questions**



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Important Points

- **Most important point**
 - Working Capital Fund (WCF) is **not an appropriation**
- **Another important point**
 - The WCF is **a financing mechanism**
 - Big difference (**compared to an appropriation**)
 - Use **obligation and contract authority**
 - **Buy and sell goods and services**
 - **Work in past - present - future**
- **Significant feature**
 - **Temporarily holds gains and losses**



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History

- **Funds Existed as Far Back as 1860s**
- **National Security Act of 1947**
 - **Created Stock and Industrial Funds**
- **DMRD 971 Created DBOF**
- **OUSD(C) Established DWCF in 1996**
- **Other Trust and Revolving Funds**



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DWCF Philosophy

- **Provide total cost visibility**
- **Improve cost consciousness**
- **Use business-like operations**
 - Buyer-seller relationships
 - Relate costs to outputs
 - Support readiness (the war fighter)
- **Generate sufficient cash to meet outlays**
- **Recover losses/return gains through future prices**



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What is a WCF?

Working Capital Funds are: Revolving funds

- Income derived from sale of goods & services
- Continuous business activity - no Fiscal Year limits
- Business areas finance operations with revolving fund cash
- Fund replenished by payments from business area customers
- Intended to operate like commercial businesses

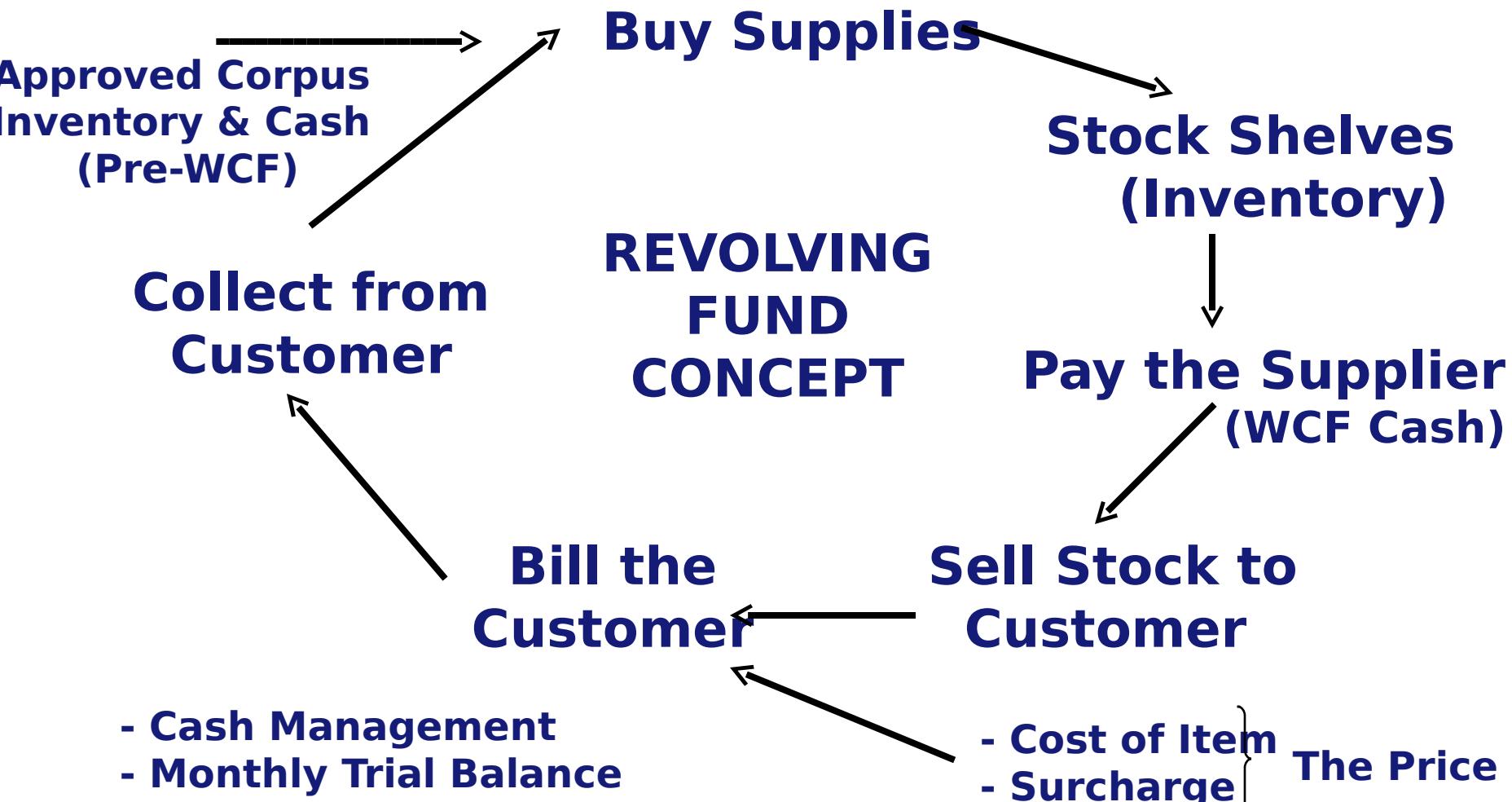
“The **Defense Working Capital Fund (DWCF)** consists of **Business Areas** that are managed by DOD Components for providing *goods & services*, on a reimbursable basis to other activities within the Department of Defense or to non-DOD activities, when authorized”

DOD FMR 7000.14-R, Volume 11B, Chapter 50, para A.1.b.



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ANATOMY OF A REVOLVING FUND





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DWCF Business Basics

- Operate Like a Business and Earn Revenue
- Identify and Recover Total Costs
- Budget to Break Even Annually
- Develop Rates and Stabilized Prices
- Maintain Cash Liquidity



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Capturing Total Costs

- **Direct Cost of Item or Service**
 - Labor, Material
- **Indirect, G&A and Depreciation Costs**
- **Total Cost Recovery (Supply Surcharge)**
 - Transportation, Inventory Management, Condemnations, Engineering, Contracting
- **Return Prior Year Gains/Recover Prior Year Losses**
- **Cash Factor to Maintain Liquidity**
- **Cost of Readiness**
 - Surge Capacity
 - Supply “pipelines”



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WCF Business Terminology

- **Revenue and Costs**
- **Operating Results (Net and Accumulated)**
- **Prices**
- **Unit Costs and Performance Measures**
- **Cash**
- **Obligation and Contract Authority**

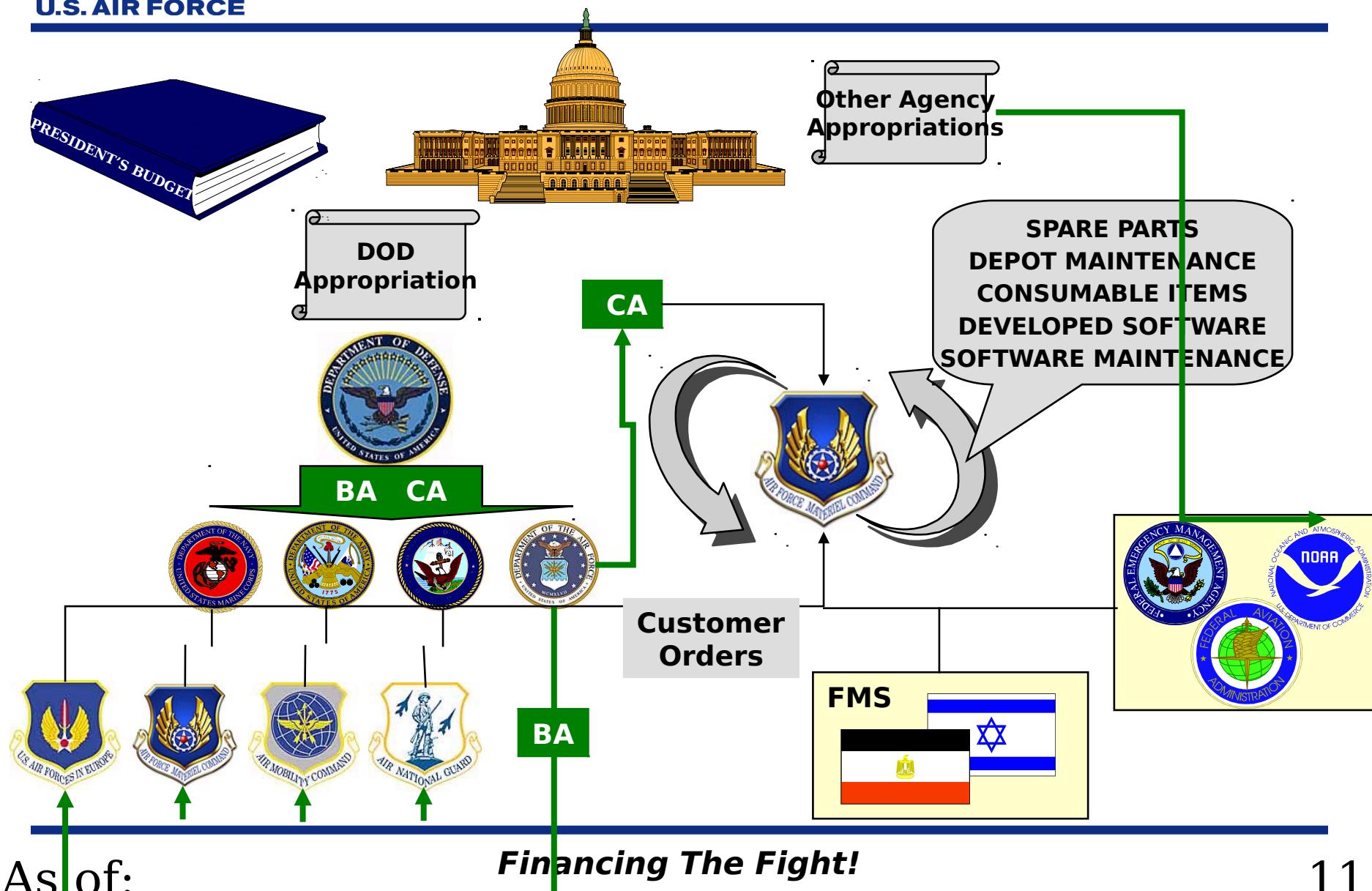
VS.

***Appropriated fund terminology: commitments,
obligations, expenditures, expired funds, etc.***



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AFWCF \$ Flow





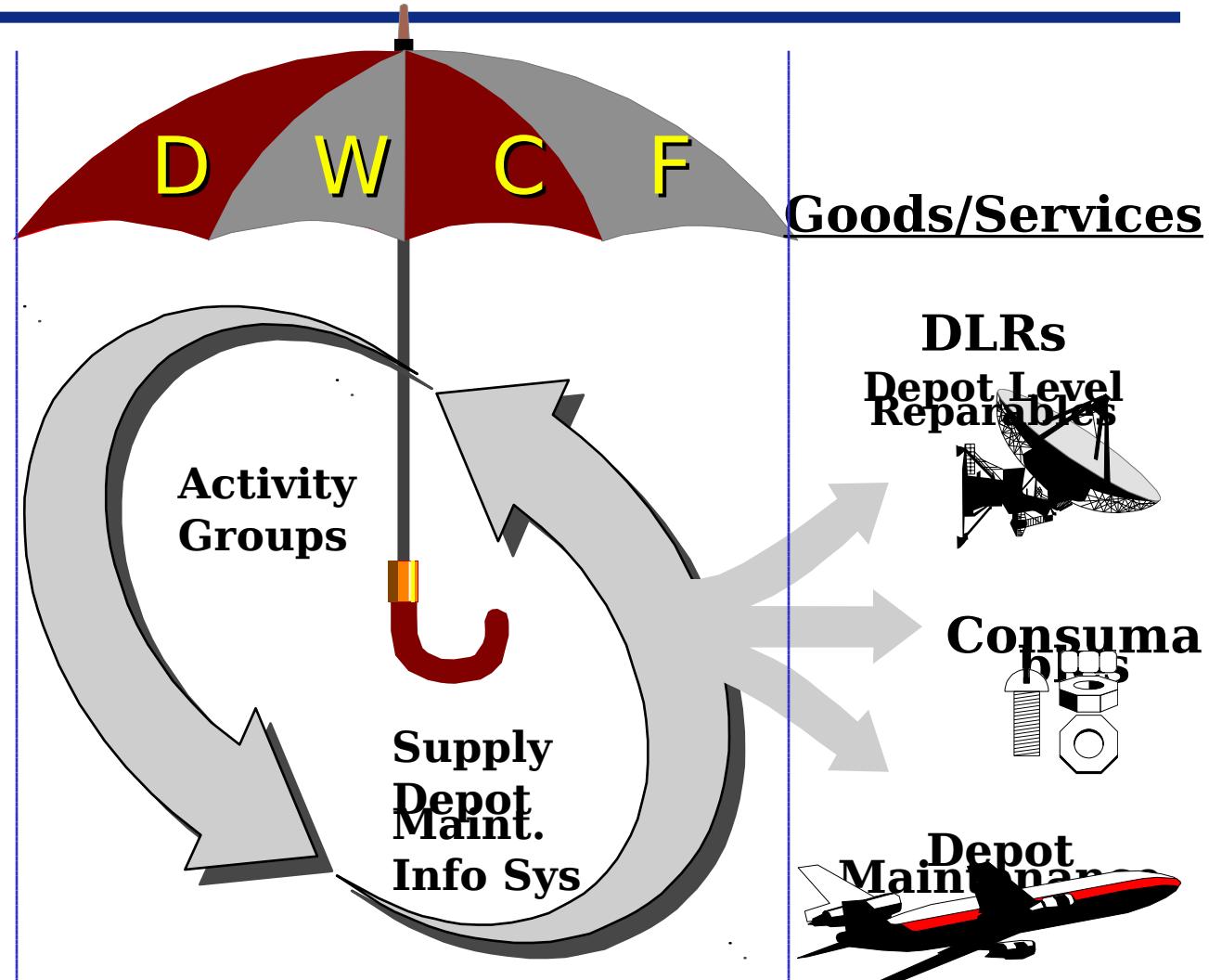
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WCF Business Concept



Funding Source:

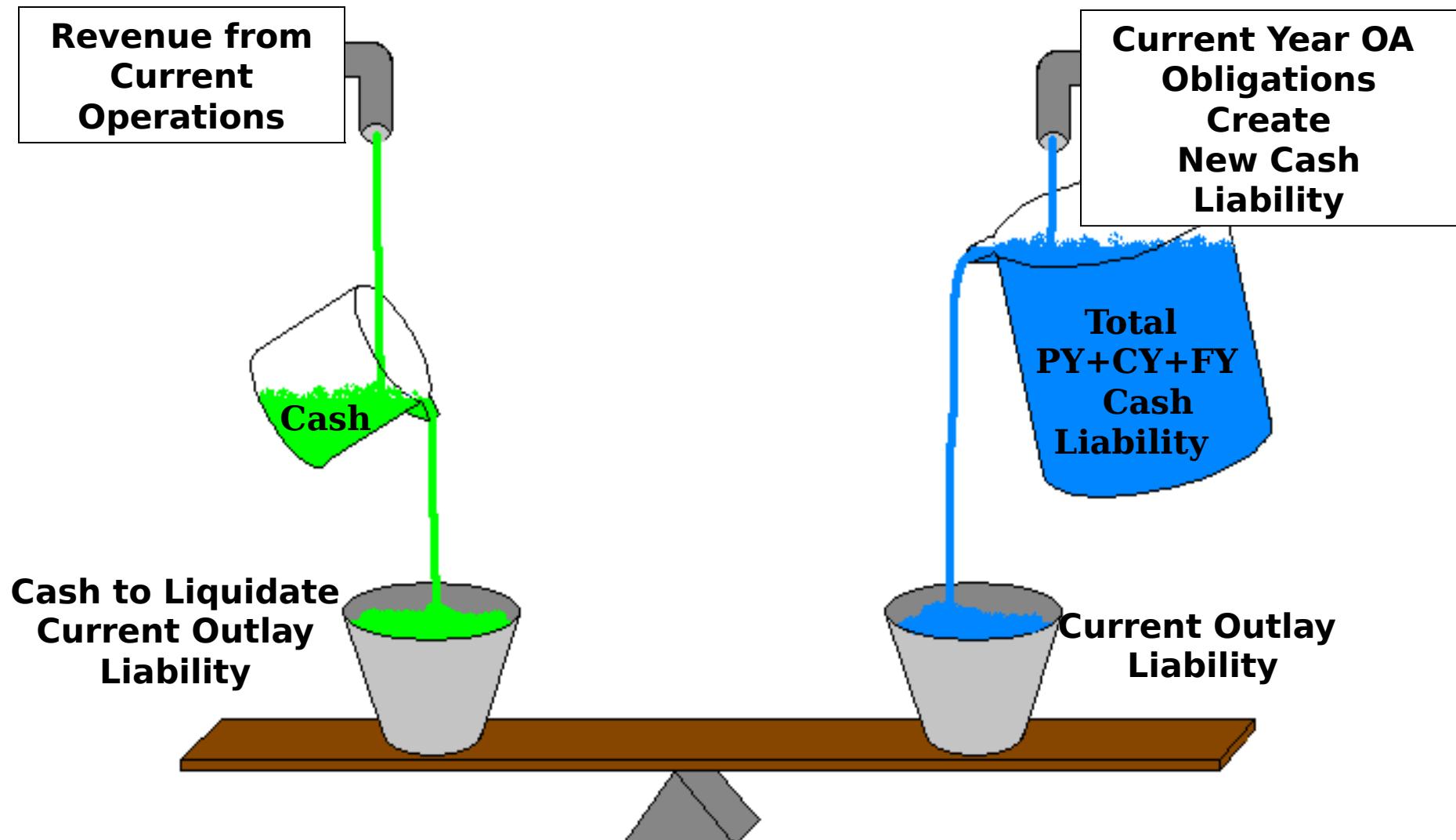
Customer Orders
O&M Procurement
Other WCFs





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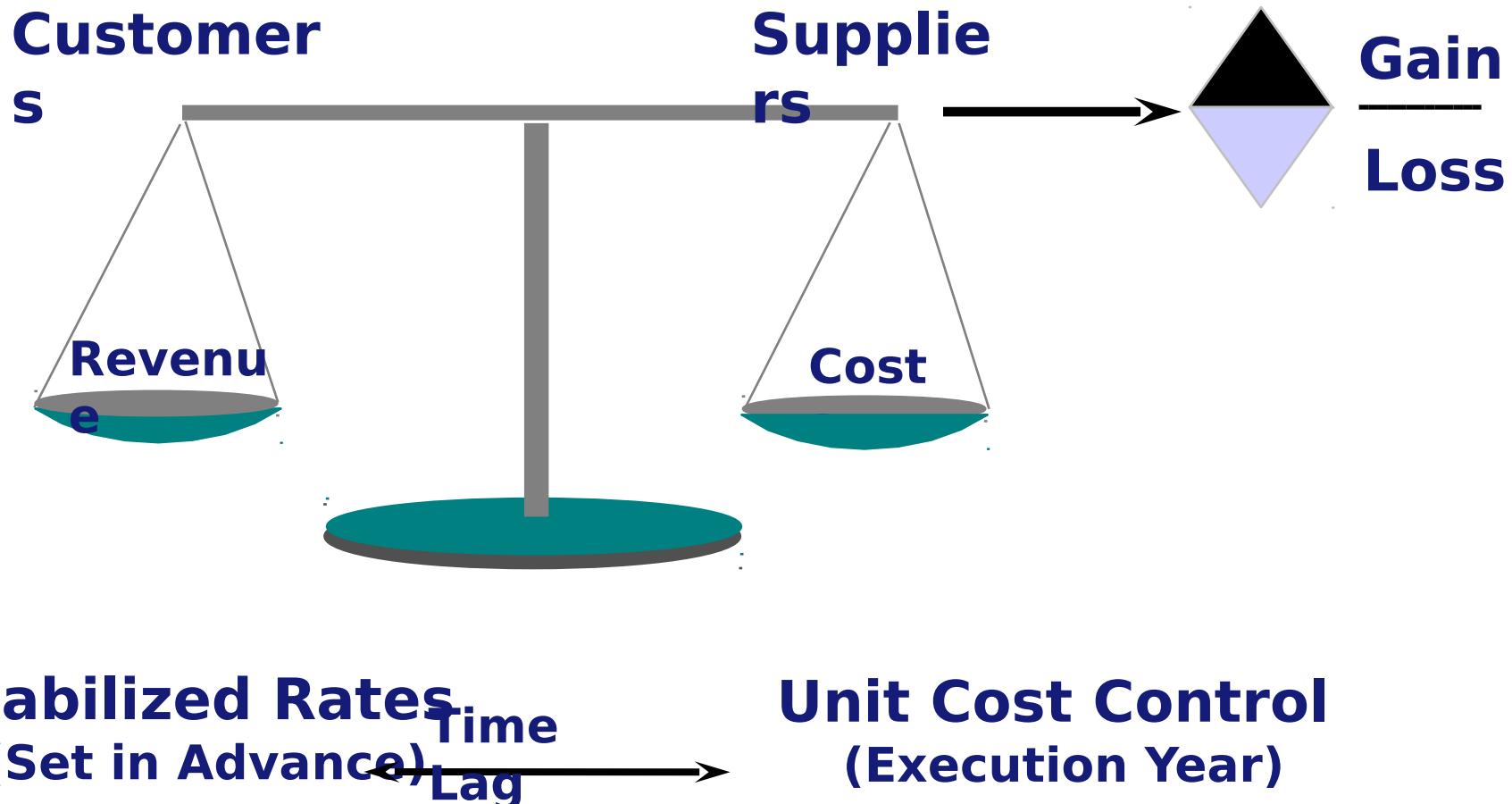
WCF Cash Management





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Net Operating Results



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Programming / Budget Overview

Identify Requirements

Nov 03 - May 04 MAJCOM FY06 POM Development

~ 23 Months

Determine Costs to Produce Requirements

Calculate Prices to Break Even

Aug / Sep 04 for FY06 budget development

POM

BES

PB

Submit Detailed Budgets / Publish Approved Prices

Feb 05 for FY06 President's Budget

Execution

Sell Goods and Services to Customers Maintain Stabilized Prices in Execution

1 Oct 05

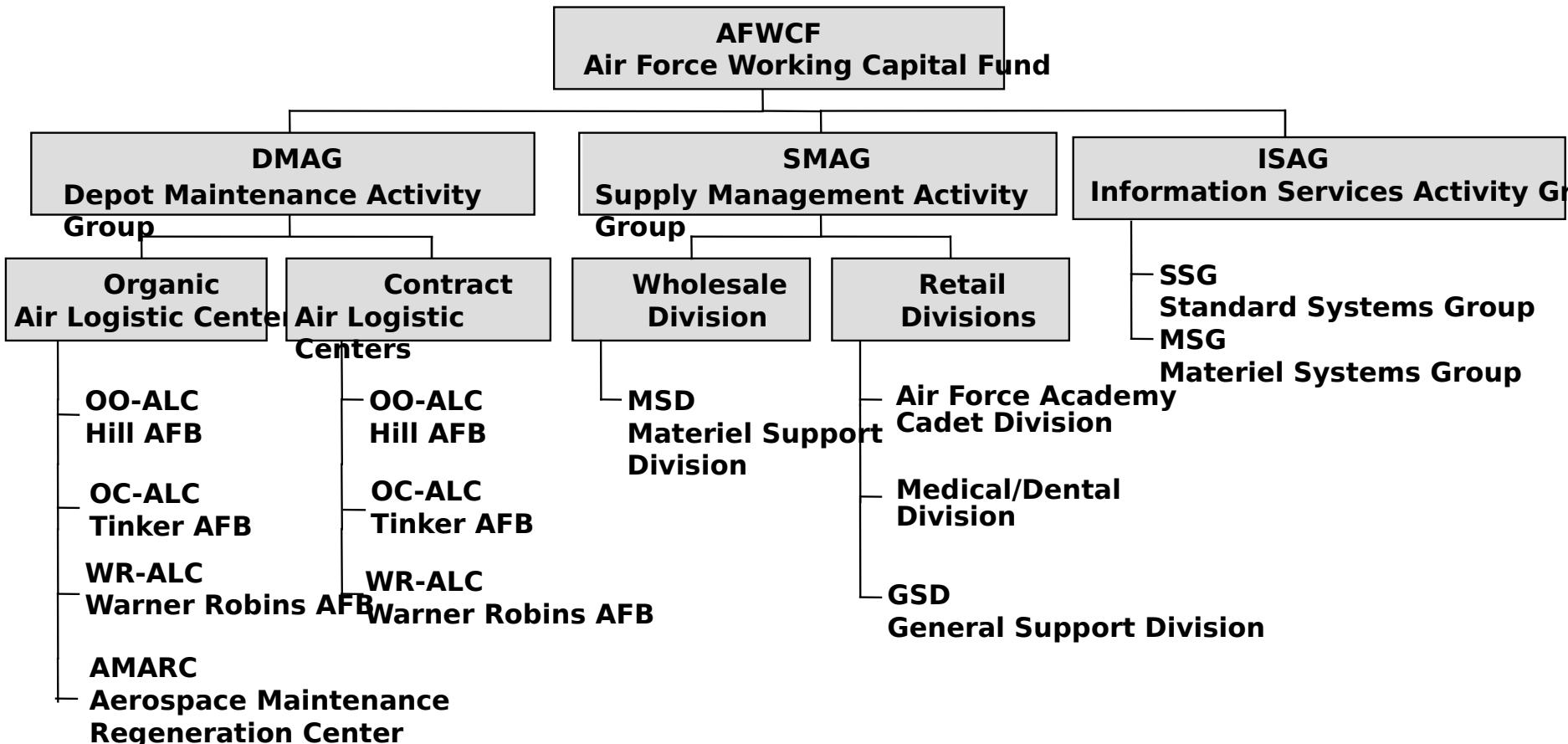
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AFWCF Organizations

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DMAG

Provides:

- Aircraft and missile programmed depot maintenance
- Whole engine overhaul
- Repair of exchangeable spare parts (Depot Level Reparables (DLRs))
- Weapon system embedded software changes
- OMEI, ABT, Local Manufacture, AMARC

...through three Air Logistics Centers

- Ogden, Oklahoma City, Warner Robins

...using organic and contractor resources (50/50)



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SMAG-Materiel Support Division (Wholesale)

Provides:

- **Aircraft, missile, and engine parts item management**
 - Initial spares, replenishment spares purchases (132,000+ items)
 - Purchases repair services from DMAG on exchangeable DLRs

...through three Air Logistics Centers

- **Ogden, Oklahoma City, Warner Robins**

...using 36 Supply Chain Managers

- **AFMC executes CA, customers execute BA**



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SMAG-Retail Divisions

Provides:

- **Weapon system and other consumable spare parts (throw aways)**
 - Considered 'retail' level; no item management; >2.2M items

...through General Support Division base and depot level purchases from Defense Logistics Agency
- **Supply support of USAF Medical Treatment Facilities**
 - Nearly 2500 individual line items at 83 bases
 - Only division still purchasing specific WRM

...through the Medical/Dental Division at the Air Force Medical Logistics Office at Frederick, Maryland
- **Uniforms and uniform accessories for sale to cadets at the Air Force Academy through the Academy Division**



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ISAG

Provides:

- **Software support; new development and system changes**

- **Communications & technical support services**

...via the Materiel Systems Group (MSG)

- **all wholesale level AFMC legacy logistics systems (D035)**

...and the Standard Systems Group (SSG)

- **all Air Force-wide standard systems (SBSS)**

...using organic resources, contractors and the CIT-PAD (Commercial Information Technology-Product Area Directorate)



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Transportation Working Capital Fund (TWCF)

Provides:

- Air, land, and sea transportation in support of National Security objectives**
 - Common user transportation assets only**
 - Service unique or theater assigned assets controlled by cognizant Service**

...through US Transportation Command using:

- Air Mobility Command**
- Military Sealift Command**
- Military Traffic Management Command**
- Defense Courier Service**

Falls under AFWCF for cash only; direct reporting responsibility to OSD



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A Simple, Perfect AFWCF Day...

- **How might an Airman use the AFWCF on a typical day...**

- **SRA Smith**
 - **Aircraft maintainer in the “2004th Maintenance Squadron” at AAFB (Any Air Force Base)**

...with apologies to the suppliers, maintainers, and operators for oversimplification...



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A Simple, Perfect AFWCF Day...

0700 SrA Smith reports to squadron, picks up assignment to replace a brake assembly on an F-16

- **Reports to supply to order new brake assembly**

Meanwhile...in the AFWCF

- Material Support Division (MSD) having tracked all brake assembly orders for the past three years, has authorized a certain level of brake assemblies for AAFB
- Based on these requirements, MSD has purchased (using CA) the required number of new or repaired brake assemblies from a commercial vendor or Depot Maintenance to fill those levels
 - MSD paid supplier with cash upon brake assembly delivery
- AAFB O&M is obligated at requisition point and expended at delivery when SRA Smith “buys” the part from base supply
- MSD updates demand projection for next brake assembly



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A Simple, Perfect AFWCF Day...

0700 Continued...

Meanwhile...in the AFWCF

- The Depot Maintenance Activity Group (DMAG) having tracked all prior brake assembly orders from MSD in the past, has estimated a certain level of workload for brake assemblies
- Based on those requirements, DMAG purchased (using its OA) the required nuts-and-bolts for brake assembly repair from the General Support Division (GSD) paying cash on delivery
- DMAG repairs the unserviceable and returns it to MSD (at a later date) who in turn reimburses DMAG
- DMAG records the brake assembly repair order from MSD and revises future nuts-and-bolts demand projections
- GSD replenishes nuts-and-bolts stock (using its CA) from ***Financing The Fight!***



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A Simple, Perfect AFWCF Day...

1100 SRA Smith has replaced the brake assembly and requests that the aircraft be fueled for takeoff

- **SRA Smith injured during the repair when a wrench broke**
- **Gets new wrench from supply and Band-Aids from clinic**

Meanwhile...in the AFWCF

- The Defense Energy Supply Center (a DLA organization), based on projected demand, has JP-8 stored at AAFB
 - Flying squadron O&M purchases fuel from DESC
- Base supply buys a new wrench using the IMPAC card
 - Not an AFWCF transaction
 - Demand may/may not be captured
- Clinic issues Band-Aids bought by MedDent Division
 - MedDent reimbursed by Defense Health Program (DHP) BA



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A Simple, Perfect AFWCF Day...

Meanwhile...in the AFWCF

- All AFWCF transactions: Demand, sale, expense, inventory, etc. processed by information systems designed, developed, implemented and maintained by the Information Services Activity Group
 - ISAG reimbursed by appropriate AFWCF activity or AF O&M
 - Each AFWCF activity price includes some overhead to pay ISAG
- In addition...DFAS bills MSD and DMAG for transactions processed and reports generated, DLA Supply bills GSD for items procured, DLA distribution depots charge DMAG and MSD for issues/receipts from its depot warehouses, TWCF bills for Second Destination Transportation charges to get



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Summary

- **DWCF Mechanism is Useful and Relevant**
 - Integral Part of Federal Financial Structure
 - Operations Not as Complex as it Looks
 - Has Flexibility to Support Changing Requirements
 - Unprogrammed Requirements/Costs Limit Flexibility
- **Performs Many Services Extremely Well**
- **Receives Significant Management Oversight**
- **Cost Awareness Continues to Drive Change**
- **Need Continual Customer / Provider Coordination**
- **More Changes on Horizon**



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INTERMISSION

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De-capitalization Overview

- **What is it?**
- **Overarching guidelines**
- **Process Overview**
- **Roles and responsibilities**



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What is de-capitalization?

- Removal of assets from the Air Force supply system and WCF management
 - No more stock, store and issue functions performed by Air Force supply

- Assets must still be visible to AF supply systems
 - Air Force still responsible for reporting assets as part of the financial statements

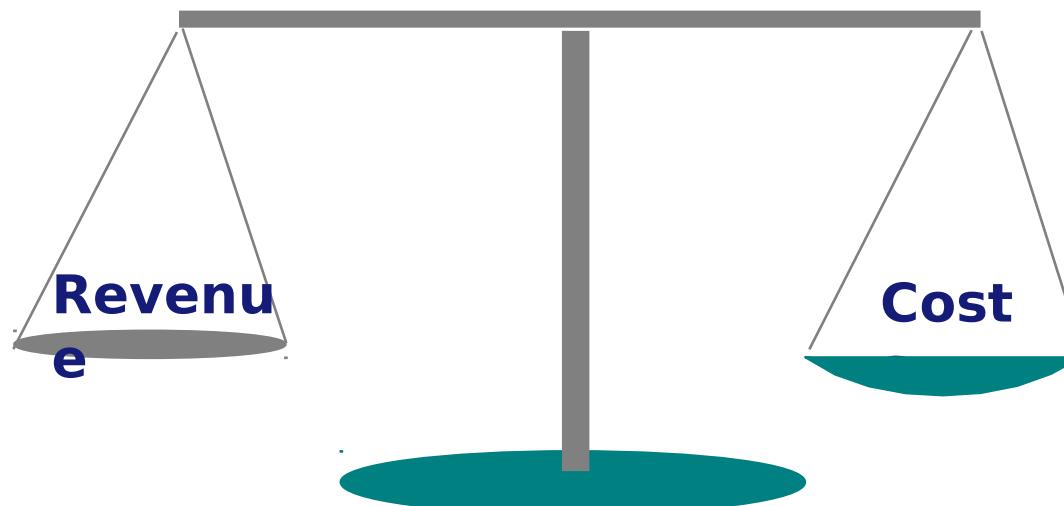




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Overarching Principle

- **Title 10 USC 2208 requires full cost recovery for WCF managed items**
- **OUSD(C) policy (DoDD 7000.4-R) forbids asset withdrawals that will cause losses to the WCF**



Simply stated...de-capitalization must be cash neutral to the Fund



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Overarching Guidelines

Why is the process the way it is?

- The Corporate Air Force must consider the overall health of the supply system as well as what seems best for each individual weapon system

- Depot level reparable inductions from the Supply Management Activity Group to the Depot Maintenance Activity Group affect our legal 50/50 constraints

- The supply system needs time to react to reductions in workload to keep the system competitive for remaining customers



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The De-capitalization Process

- De-capitalization planning must begin *budget lead time* away from desired asset removal date
 - Gives the Corporate Structure time to assess viability to the program and the Air Force supply system
 - Gives the WCF time to adjust workload plans
 - Gives the program time to budget for the costs of de-capitalization
- De-capitalizing within budget lead time directly impacts MAJCOM buying power and results in increased WCF out year rates/prices
- Actual de-capitalization, i.e. physical movement of assets, recoding of assets in the SBSS, begins *after* OUSD(C) approval



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De-capitalization Roles and Responsibilities

■ System Program Director (SPD)

- Determines the most efficient and cost effective method of weapon system supply support**
- Develops supply support strategies, plans, cost analyses, and budgets**
- Oversees the entire process to ensure all requirements are fulfilled**

■ Using Commands

- Sponsor strategy through programming phase of the Planning, Programming, Budgeting and Execution (PPB&E) process**



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De-capitalization Roles and Responsibilities

- **Air Force Materiel Command (AFMC) determines the specifics of inventory transfer**
 - **Identify inventory to be de-capitalized**
 - **Inventory value**
 - **Workload driven by that inventory**
 - **Any costs associated with its removal from the Fund**
 - **Fund reimbursement**
 - **Rate impact**



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De-capitalization Roles and Responsibilities

- **HQ Air Force (IL)**
 - **Determines the right size and capability base of the supply system**
 - **Assess the impact of the reduced workload on the overall supply system**
 - **Propose modifications to the system as necessary**
 - **Assess any impact to 50/50 constraints**



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De-capitalization Roles and Responsibilities

- **SAF/FMB**
 - **Reviews de-cap proposal to ensure cash neutrality**
 - **Assess rate impacts**
 - **Forwards formal de-cap authority request to the Office of the Under Secretary of Defense, Comptroller [OUSD(C)]**
 - **AF liaison to OUSD(C) on the request**
- **OUSD(C) approves/disapproves de-cap request**



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How is the process worked?

- The SPD engages all interested parties early in the planning process - Using Commands, AFMC, Headquarters AF, and Secretariat staff
- AFMC/LG/FM determines the specifics of inventory transfer, Fund reimbursement, and rate impacts
 - Provides info to the SPD, AF/ILPY and SAF/FMBMR
- AF/ILPY determines any changes necessary in the supply system as a result of reduce workload
- SAF/FMBMR verifies cash neutrality and rate impacts
- Using command(s) bring a consolidated Air Force position through the Corporate Structure as part of the POM process



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How is the process worked? (cont'd)

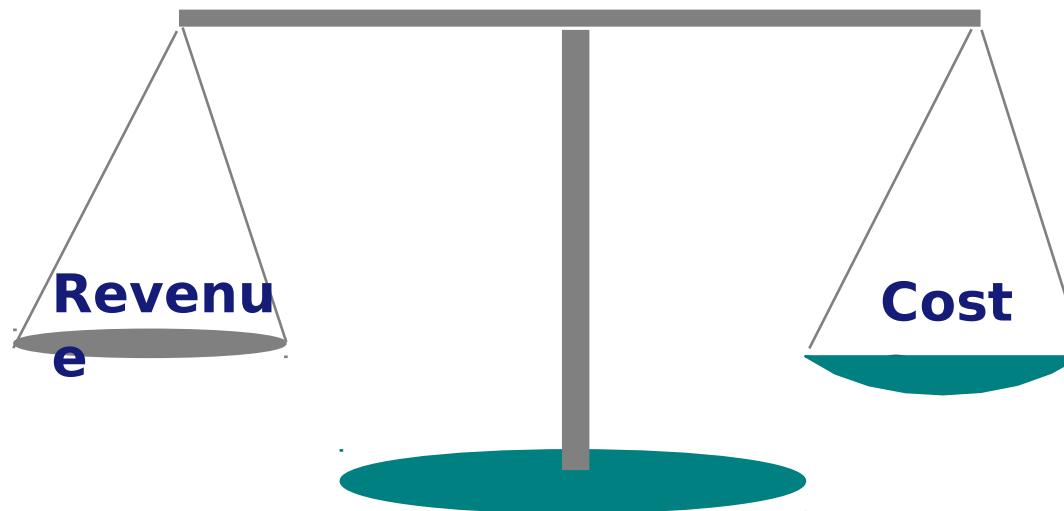
- Once Corporate approval is granted
 - The SPD prepares a summary letter for AFMC/FM/LG signature to SAF/FMBM requesting formal de-capitalization authority
 - Include number of NSNs, inventory value, WCF reimbursement, timing of asset movement and cash neutrality statement
- SAF/FMB requests formal de-cap authority from OUSD(C)
- SAF/FMB forwards OUSD(C) decision back to AFMC
 - Physical de-cap may begin, or plans altered per OUSD(C) guidance

THE SPD HAS THE RESPONSIBILITY TO OVERSEE THE ENTIRE PROCESS AND ENSURE ALL REQUIREMENTS ARE FULFILLED



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The bottom line



- De-capitalization must be cash neutral to the Fund
- Must have OUSD(C) approval *prior* to proceeding.



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Frequently Asked Questions

Question: What color(s) of money can be used to pay for de-capitalization?

Answer: The SPD is responsible for ensuring the proper use of funding in his/her control.



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Frequently Asked Questions

Question: If an item has zero assets in stock, why does it take so long to de-cap?

Answer: Even though inventory balances are zero, future liabilities may already have been established. For example, assets could be on order and set to deliver.



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Frequently Asked Questions

Question: Can LRU and repair parts be de-capped separately?

Answer: Need to consider at all possible support issues in making a de-cap decision.



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Frequently Asked Questions

Question: Discuss a de-cap package. For example, the C-17 chose not to de-cap some items.

Answer: C-17 peculiar items not de-capped were suppose to transition to common use.

- That has not happened. AF now supporting peculiar items in two ways, via CLS and WCF.
- Concerns: requirements have been zeroed out in budget submissions
- AFWCF cost authority shifted from valid requirements to support these items - other weapon systems subsidizing C-17



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Frequently Asked Questions

Question: Cost analysis is required as part of a de-cap request. How are the costs determined?

Answer: Each request is different; there is no standard format. Cash neutrality must be determined on a case by case basis.



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QUESTIONS!!!!

